

BELMOND-KLEMMÉ
COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Jim Kiefer	President	2004
Michael Lette	Vice President	2003
Kevin Brunes		2005
Marilyn Janssen		2005
Roger Johnson		2004
Terri Havens		2003
Bruce Meyer		2005

(After September, 2003 Election)

Marilyn Janssen	President	2005
Kevin Brunes	Vice President	2005
Jim Kiefer		2004
Bruce Meyer		2005
Roger Johnson		2004
Dennis Lowenberg		2006
Jim Swenson	(appointed, December 2002)	2006

SCHOOL OFFICIALS

Bill Maske	Superintendent
Dawn Sander	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Belmond-Klemme Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Belmond-Klemme Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Belmond-Klemme Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8 to the general purpose financial statements, during the year ended June 30, 2004, Belmond-Klemme Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37 Basic Financial Statements and Management's Discussion and Analysis; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated December 3, 2004 on our consideration of Belmond-Klemme Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 31 through 33 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Belmond-Klemme Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

December 3, 2004

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Belmond-Klemme Community School District's Comprehensive Annual Financial Report presents its "discussion and analysis" of the District's financial performance during the fiscal year ending June 30, 2004. Please read it in conjunction with the District's financial statements.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The District enjoys a 15% solvency ratio. This is above the state average. This will help in absorbing state aid cuts and inadequate allowable growth.
- The District's General Fund balance decreased by over \$250,000. The District had revenues of \$5,878,998 and \$6,129,663 was spent during the year.
- Revenues increased slightly over the prior year. This was due primarily to increased federal grant activity. State revenues fell over \$100,000 from fiscal 2003.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District began collecting local option sales tax money from Hancock County in September, 2003. Wright County will begin collecting it July 1, 2004. No definite uses have been designated, but will most likely be used to address infrastructure needs in the District.
- The District's General Fund expenditures increased over \$300,000 in Fiscal 2004. This was primarily due to increases in payroll and benefits. Over 80% of this increase was in the Instruction area as the District continues to focus its monies on direct classroom spending.
- Enrollment dropped 25 students from fiscal 2003 to fiscal 2004. This will adversely effect the District in the coming year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements, and required supplemental information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Belmond-Klemme Community School District

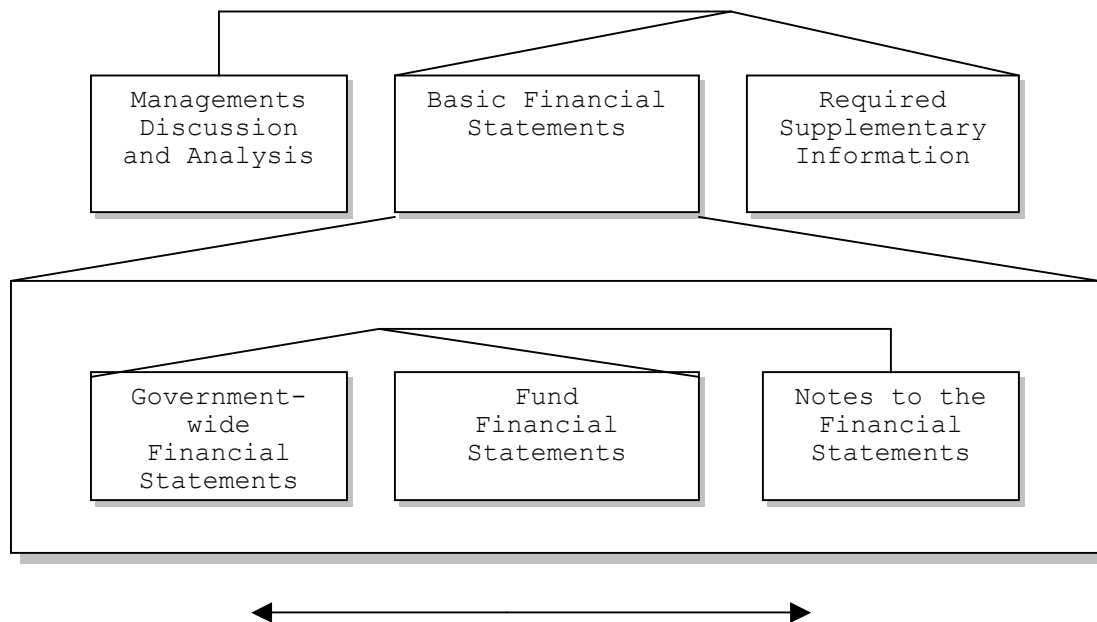


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> . Statement of net assets . Statement of activities 	<ul style="list-style-type: none"> . Balance sheet . Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> . Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows 	<ul style="list-style-type: none"> . Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

COMBINED BALANCE SHEET

The combined balance sheet shows the total assets, liabilities, and fund equity for all of the funds for the entire district for the 2004 fiscal year. The combined balance sheet shows three major fund types as well as the account groups: general fixed assets and the general long-term debt.

The government funds include: the general fund, special revenue, debt service, and capital projects. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, administration, and capital projects. Property taxes and state aid finance most of these activities.

The District's only enterprise fund is the school nutrition fund.

The fiduciary funds include trusts and agencies. The District is the trustee or fiduciary for assets that belong to others, such as scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from other types of funds because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	
Current assets	5,667	6,125	28	27	5,695	6,152	-7.43%
Capital assets	734	1,084	15	19	749	1,103	-32.09%
Total assets	6,401	7,209	43	46	6,444	7,255	-11.18%
Current liabilities	4,531	4,758	4	1	4,535	4,759	-4.71%
Non-current liabilities	-	-	-	-	-	-	#DIV/0!
Total liabilities	4,531	4,758	4	1	4,535	4,759	-4.71%
Net Assets							
Invested in capital assets, net of related debt	734	1,084	15	19	749	1,103	-32.09%
Restricted	175	148	-	-	175	148	18.24%
Unrestricted	961	1,219	24	26	985	1,245	-20.88%
Total net assets	1,870	2,451	39	45	1,909	2,496	-23.52%

The District's combined net assets were greater at June 30, 2004 than June 30, 2003. The increase occurred primarily as a result of decreased spending in all areas.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	180	127	307
Operating grants, contributions and restricted interest	1,114	90	1,204
General revenues:			
Property tax	2,774	-	2,774
Income surtax	70	-	70
Local option sales tax	62	-	62
Unrestricted state grants	2,399	-	2,399
Unrestricted investment earnings	16	-	16
Other	1	-	1
Total revenues	<u>6,616</u>	<u>217</u>	<u>6,833</u>
Program expenses:			
Governmental activities:			
Instruction	4,490	-	4,490
Support Services	2,055	-	2,055
Non-instructional programs	3	223	226
Other expenses	649	-	649
Total expenses	<u>7,197</u>	<u>223</u>	<u>7,420</u>
Change in net assets	<u>(581)</u>	<u>(6)</u>	<u>(587)</u>

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,603,029 and expenses were \$6,846,358. The District reduced discretionary spending in an effort to keep expenditures as close as possible to revenues.

State aid cuts and additional early retirement expenses in addition to normal payroll increases caused the balance to decrease. Inadequate allowable growth prevents obtaining additional revenues from normal funding sources.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	4,490	3,513
Support Services	2,055	1,975
Non-instructional programs	3	3
Other expenditures	<u>649</u>	<u>412</u>
Totals	<u>7,197</u>	<u>5,903</u>

- The cost financed by users of the District's programs was \$179,481.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$777,106.
- The net cost of governmental activities was financed with \$2,774,189 in property tax, \$2,398,939 in state foundation aid, and \$15,658 in interest income.

Proprietary-Type Activities

Revenues for the District's School Nutrition Fund were \$217,367 and expenses were \$223,189. The revenues include: charges for services, contributions, and federal and state reimbursements.

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Belmont-Klemme Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$1,869,780, which is less than last year's ending fund balance of \$2,451,195.

- The District has been trying to control its General Fund balance by holding the line on payroll and discretionary spending and obtaining outside grants.
- The elimination of Phase III dollars from the state and the total elimination of technology funding from the state has made it difficult to maintain staff development for teachers and keep all of the school's computers in operational order. The State also instituted a mid-year budget cut that was absorbed by existing balances.
- Depreciation expenses (non-cash expense) is over \$400,000. This makes the decrease in fund balance much more pronounced than the decrease in actual cash on hand.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

It is the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. Expenditures did not exceed the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2004, the District has invested more than \$5,000,000 in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses, and other vehicles, library holdings and textbooks. Total depreciation expense for the year exceeded \$400,000.

Long-term Debt

The District has no long-term debt as of June 30, 2004.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Decreasing enrollment will have a negative offset in future years.
- The state has now completely abandoned Phase III funding to schools for teacher staff development and curriculum work.
- Iowa's public schools were notified in October 2003 that the state would make an immediate 2.5% across-the-board reduction in funding for the 2004 fiscal year.
- Unfunded mandates such as "No Child Left Behind," and "GASB34" are making it very difficult for schools to keep adequate staffing and provide the necessary instructional materials.
- Inadequate funding by the Legislature will force the District to dip further into its reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dawn Sander, District Secretary, Belmond-Klemme Community Schools, 411 10th Ave NE, Belmond, Iowa 50421.

Basic Financial Statements

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,575,428	21,077	1,596,505
ISCAP investments	1,161,035	-	1,161,035
Receivables:			
Property tax:			
Current year	42,135	-	42,135
Succeeding year	2,790,257	-	2,790,257
Income surtax - succeeding year	73,256	-	73,256
ISCAP accrued interest	6,598	-	6,598
Due from other governments	9,574	-	9,574
Other receivables	8,449	-	8,449
Inventories	-	6,889	6,889
Capital assets, net of accumulated depreciation (note 3)	733,772	14,859	748,631
Total assets	<u>6,400,504</u>	<u>42,825</u>	<u>6,443,329</u>
Liabilities			
Accounts payable	10,927	-	10,927
Accrued salary and benefits	488,651	3,652	492,303
ISCAP warrants payable	1,154,000	-	1,154,000
ISCAP accrued interest payable	13,633	-	13,633
Deferred revenue:			
Succeeding year property tax	2,790,257	-	2,790,257
Succeeding year income surtax	73,256	-	73,256
Total liabilities	<u>4,530,724</u>	<u>3,652</u>	<u>4,534,376</u>
Net assets			
Invested in capital assets, net of related debt	733,772	14,859	748,631
Restricted for:			
Capital Projects	62,135	-	62,135
Management Fund	18,136	-	18,136
Physical Plant and Equipment Levy Fund	94,616	-	94,616
Unrestricted	961,121	24,314	1,160,322
Total net assets	<u>1,869,780</u>	<u>39,173</u>	<u>1,908,953</u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	2,890,029	169,625	251,983	(2,468,421)	-	(2,468,421)
Special instruction	963,823	6,591	236,120	(721,112)	-	(721,112)
Other instruction	635,960	-	312,212	(323,748)	-	(323,748)
	<u>4,489,812</u>	<u>176,216</u>	<u>800,315</u>	<u>(3,513,281)</u>	<u>-</u>	<u>(3,513,281)</u>
Support services:						
Student services	214,585	-	2,721	(211,864)	-	(211,864)
Instructional staff services	407,296	-	-	(407,296)	-	(407,296)
Administration services	531,506	-	-	(531,506)	-	(531,506)
Operation and maintenance of plant services	656,559	-	73,877	(582,682)	-	(582,682)
Transportation services	221,393	3,265	-	(218,128)	-	(218,128)
Central support	23,639	-	-	(23,639)	-	(23,639)
	<u>2,054,978</u>	<u>3,265</u>	<u>76,598</u>	<u>(1,975,115)</u>	<u>-</u>	<u>(1,975,115)</u>
Non-instructional programs:						
Food service operations	2,954	-	-	(2,954)	-	(2,954)
Other expenditures:						
Facilities acquisition and construction	1,012	-	-	(1,012)	-	(1,012)
AEA flowthrough	237,069	-	237,069	-	-	-
Depreciation (unallocated) *	411,208	-	-	(411,208)	-	(411,208)
	<u>649,289</u>	<u>-</u>	<u>237,069</u>	<u>(412,220)</u>	<u>-</u>	<u>(412,220)</u>
Total governmental activities	7,197,033	179,481	1,113,982	(5,903,570)	-	(5,903,570)

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	223,189	127,517	89,850	-	(5,822)	(5,822)
Total	7,420,222	306,998	1,203,832	(5,903,570)	(5,822)	(5,909,392)
General revenues:						
Property tax levied for:						
General purposes				2,482,231	-	2,482,231
Management fund				84,371	-	84,371
Capital outlay				207,587	-	207,587
Income surtax				70,240	-	70,240
Local option sales tax				62,135	-	62,135
Unrestricted state grants				2,398,939	-	2,398,939
Unrestricted investment earnings				15,658	-	15,658
Other				994	-	994
Total general revenue				5,322,155	-	5,322,155
Change in net assets				(581,415)	(5,822)	(587,237)
Net assets beginning of year, as restated (note 8)				2,451,195	44,995	2,496,190
Net assets end of year				1,869,780	39,173	1,908,953

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,334,891	91,478	52,561	96,498	1,575,428
ISCAP investments	1,161,035	-	-	-	1,161,035
Receivables:					
Property tax:					
Current year	37,713	3,138	-	1,284	42,135
Succeeding year	2,497,040	208,487	-	84,730	2,790,257
Income surtax - succeeding year	73,256	-	-	-	73,256
ISCAP accrued interest	6,598	-	-	-	6,598
Due from other governments	-	-	9,574	-	9,574
Other receivables	8,398	-	-	51	8,449
Total assets	<u>5,118,931</u>	<u>303,103</u>	<u>62,135</u>	<u>182,563</u>	<u>5,666,732</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	10,927	-	-	-	10,927
Accrued salary and benefits	488,651	-	-	-	488,651
ISCAP warrants payable	1,154,000	-	-	-	1,154,000
ISCAP accrued interest payable	13,633	-	-	-	13,633
Deferred revenue:					
Succeeding year property tax	2,497,040	208,487	-	84,730	2,790,257
Succeeding year income surtax	73,256	-	-	-	73,256
Total liabilities	<u>4,237,507</u>	<u>208,487</u>	<u>-</u>	<u>84,730</u>	<u>4,530,724</u>
Fund balances:					
Reserved for capital projects	-	-	62,135	-	62,135
Unreserved	881,424	94,616	-	97,833	1,073,873
Total fund balance	<u>881,424</u>	<u>94,616</u>	<u>62,135</u>	<u>97,833</u>	<u>1,136,008</u>
Total liabilities and fund balances	<u>5,118,931</u>	<u>303,103</u>	<u>62,135</u>	<u>182,563</u>	<u>5,666,732</u>

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 1,136,008
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**Amounts reported for governmental activities in the
statement of net assets are different because:**

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in the governmental funds.

733,772

Net assets of governmental activities (Exhibit A)	<u><u>\$ 1,869,780</u></u>
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BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,552,471	207,137	62,135	84,371	2,906,114
Tuition	175,999	-	-	-	175,999
Other	24,874	11,337	-	308,660	344,871
State sources	2,948,727	278	-	113	2,949,118
Federal sources	176,927	50,000	-	-	226,927
Total revenues	5,878,998	268,752	62,135	393,144	6,603,029
Expenditures:					
Instruction:					
Regular instruction	2,810,538	4,769	-	74,722	2,890,029
Special instruction	963,823	-	-	-	963,823
Other instruction	321,303	-	-	314,657	635,960
	4,095,664	4,769	-	389,379	4,489,812
Support services:					
Student services	214,585	-	-	-	214,585
Instructional staff services	407,296	-	-	-	407,296
Administration services	531,506	-	-	-	531,506
Operation and maintenance of plant services	440,270	196,934	-	33,546	670,750
Transportation services	203,273	52,781	-	11,681	267,735
Central support	-	-	-	23,639	23,639
	1,796,930	249,715	-	68,866	2,115,511
Non-instructional programs:					
Food service operations	-	-	-	2,954	2,954
Other expenditures:					
Facility acquisition and construction	-	1,012	-	-	1,012
AEA flowthrough	237,069	-	-	-	237,069
	237,069	1,012	-	-	238,081
Total expenditures	6,129,663	255,496	-	461,199	6,846,358

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	(250,665)	13,256	62,135	(68,055)	(243,329)
Other financing sources (uses):					
Sale of property and materials	170	12,419	-	-	12,589
Total other financial sources (uses)	170	12,419	-	-	12,589
Excess of revenues and other financing sources over expenditures and other financing uses	(250,495)	25,675	62,135	(68,055)	(230,740)
Fund balances beginning of year, as restated (note 8)	1,131,919	68,941	-	165,888	1,366,748
Fund balances end of year	881,424	94,616	62,135	97,833	1,136,008

See notes to financial statements.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (230,740)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 66,972	
Depreciation expense	<u>(417,647)</u>	<u>(350,675)</u>

Change in net assets of governmental activities (Exhibit B) \$ (581,415)

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>127,517</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	94,586
Benefits	16,767
Services	5,564
Supplies	101,429
Property	1,195
Depreciation	<u>3,648</u>
Total operating expenses	<u>223,189</u>
Operating (loss)	<u>(95,672)</u>
Non-operating revenues:	
Interest on investments	115
State sources	3,448
Federal sources	<u>86,287</u>
Total non-operating revenues	<u>89,850</u>
Change in net assets	(5,822)
Net assets beginning of year	<u>44,995</u>
Net assets end of year	<u><u>39,173</u></u>

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

	Enterprise School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	127,517
Cash payments to employees for services	(109,113)
Cash payments to suppliers for goods or services	(87,506)
Net cash (used in) operating activities	(69,102)
Cash flows from non-capital financing activities:	
State grants received	3,448
Federal grants received	67,241
Net cash provided by non-capital financing activities	70,689
Cash flows from investing activities:	
Interest on investments	115
Net increase in cash and cash equivalents	1,702
Cash and cash equivalents beginning of year	19,375
Cash and cash equivalents end of year	21,077
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(95,672)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:	
Depreciation	3,648
Commodities used	19,046
Decrease in inventory	1,635
Increase in accrued salary and benefits	2,241
	(69,102)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	21,077

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$19,046.

See notes to financial statements.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash and pooled investments	<u>1,134,140</u>
Total assets	<u>1,134,140</u>
Net Assets	
Reserved for scholarships	<u>1,134,140</u>
Total net assets	<u>1,134,140</u>

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2003

	Private Purpose <u>Trusts</u> \$
Additions:	
Local sources:	
Other	582,380
Deductions:	
Support services:	
Other	<u>44,250</u>
Change in net assets	538,130
Net assets beginning of year	<u>596,010</u>
Net assets end of year	<u><u>1,134,140</u></u>

See notes to financial statements.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Belmond-Klemme Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Belmond and Klemme, Iowa, and agricultural territory in Wright, Hancock and Franklin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Belmond-Klemme Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Belmond-Klemme Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wright and Hancock County Assessor's Conference Boards.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments at June 30, 2004 are as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Iowa Schools Joint Investment Trust	<u>\$63,123</u>	
Donated stock for scholarships Carrying amount is fair market value		<u>\$570,174</u>

The District had investments in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investment to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization. The District's other investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (note 8)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 22,196	-	-	22,196
Capital assets being depreciated:				
Land Improvements	-	14,191	-	14,191
Buildings	2,851,170	-	-	2,851,170
Furniture and Equipment	2,520,390	52,781	-	2,573,171
Total capital assets being depreciated	5,371,560	66,972	-	5,438,532
Less accumulated depreciation for:				
Land Improvements	-	568	-	568
Buildings	2,509,030	57,023	-	2,566,053
Furniture and Equipment	1,800,279	360,056	-	2,160,335
Total accumulated depreciation	4,309,309	417,647	-	4,726,956
Total capital assets being depreciated, net	1,062,251	(350,675)	-	711,576
Governmental activities, capital assets, net	\$ 1,084,447	(350,675)	-	733,772
Business type activities				
Furniture and Equipment	43,769	-	-	43,769
Less accumulated depreciation	25,262	3,648	-	28,910
Business type activities capital assets, net	\$ 18,507	(3,648)	-	14,859
Depreciation expense was charged to the following functions:				
Governmental activities:				
Student transportation				6,439
Unallocated				411,208
				\$ 417,647
Business type activities:				
Food service operations				\$ 3,648

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Dates Issued</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04A	6/20/03	6/18/04	\$ -	-	-	-
2003-04B	1/30/04	1/28/05	564,821	6,598	561,000	5,408
2004-05A	6/30/04	6/30/05	596,214	-	593,000	8,225
Total			<u>\$1,161,035</u>	<u>6,598</u>	<u>1,154,000</u>	<u>13,633</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund, for the year ended June 30, 2004.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.00%	1.050%
2003-04B	2.00%	1.310%
2004-05A	3.00%	2.463%

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$207,201, \$202,528, and \$200,911 respectively, equal to the required contributions for each year.

(6) Risk Management

Belmond-Klemme Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$237,069 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2003. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund			Total
	General	Debt Service	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$1,131,919	68,941	165,888	1,366,748
GASB Interpretation 6 adjustments	-	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>\$1,131,919</u>	<u>68,941</u>	<u>165,888</u>	1,366,748
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$4,309,309				<u>1,084,447</u>
Net assets, July 1, 2003, as restated				<u>\$2,451,195</u>

Required Supplementary Information

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	3,448,135	127,632	3,575,767	3,543,611	3,543,611	32,156
State sources	2,949,118	3,448	2,952,566	3,140,626	3,140,626	(188,060)
Federal sources	226,927	67,241	294,168	227,473	227,473	66,695
Total revenues	6,624,180	198,321	6,822,501	6,911,710	6,911,710	(89,209)
Expenditures						
Instruction	4,516,434	-	4,516,434	4,656,000	4,656,000	139,566
Support services	2,115,511	-	2,115,511	2,245,000	2,245,000	129,489
Non-instructional programs	-	196,619	196,619	310,000	310,000	113,381
Other expenditures	238,081	-	238,081	375,102	375,102	137,021
Total expenditures	6,870,026	196,619	7,066,645	7,586,102	7,586,102	519,457
Excess of revenues over expenditures	(245,846)	1,702	(244,144)	(674,392)	(674,392)	430,248
Other financing sources (uses)	12,589	-	12,589	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(233,257)	1,702	(231,555)	(674,392)	(674,392)	430,248
Balance beginning of year	1,808,685	19,375	1,828,060	2,405,447	2,405,447	3,347,565
Balance end of year	1,575,428	21,077	1,596,505	1,731,055	1,731,055	3,777,813

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,624,180	(21,151)	6,603,029
Expenditures	6,870,026	(23,668)	6,846,358
Net	(245,846)	2,517	(243,329)
Other financing sources (uses)	12,589	-	12,589
Beginning fund balances	1,808,685	(441,937)	1,366,748
Ending fund balances	<u>\$ 1,575,428</u>	<u>(439,420)</u>	<u>1,136,008</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 198,321	19,046	217,367
Expenditures	196,619	26,570	223,189
Net	1,702	(7,524)	(5,822)
Beginning fund balances	19,375	25,620	44,995
Ending fund balances	<u>\$ 21,077</u>	<u>18,096</u>	<u>39,173</u>

See accompanying independent auditor's report.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

The District did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Special Revenue Funds

June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	16,852	79,646	96,498
Property tax receivable:			
Current year	1,284	-	1,284
Succeeding year	84,730	-	84,730
Other receivables	-	51	51
Total assets	<u>102,866</u>	<u>79,697</u>	<u>182,563</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	84,730	-	84,730
	<u>84,730</u>	<u>-</u>	<u>84,730</u>
Fund equity:			
Unreserved, undesignated fund balance	18,136	79,697	97,833
Total liabilities and fund equity	<u>102,866</u>	<u>79,697</u>	<u>182,563</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICTCombining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Special Revenue Funds

Year ended June 30, 2004

	<u>Management</u>	<u>Student</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues:			
Local sources:			
Local tax	84,371	-	84,371
Other	1,422	307,238	308,660
State sources	113	-	113
Total revenues	<u>85,906</u>	<u>307,238</u>	<u>393,144</u>
Expenditures:			
Instruction:			
Regular instruction	74,722	-	74,722
Co-curricular instruction	-	314,657	314,657
Support services:			
Plant operation and maintenance	33,546	-	33,546
Student transportation	11,681	-	11,681
Central support	23,639	-	23,639
Non-instructional programs:			
Food service operations	<u>2,954</u>	<u>-</u>	<u>2,954</u>
Total expenditures	<u>146,542</u>	<u>314,657</u>	<u>461,199</u>
Excess (deficiency) of revenues over (under) expenditures	(60,636)	(7,419)	(68,055)
Fund balances beginning of year, as restated (note 8)	<u>78,772</u>	<u>87,116</u>	<u>165,888</u>
Balance end of year	<u><u>18,136</u></u>	<u><u>79,697</u></u>	<u><u>97,833</u></u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Interest on Investments	2,528	446	2,684	290
Pictures	3,784	733	3,593	924
Student Activities	(464)	2,437	2,238	(265)
Gifts & Donations	812	11	-	823
DARE/FREE FORCE	3,117	-	-	3,117
Special Needs Fund	17	-	-	17
Nursing Services	230	210	20	420
Auditorium Renovation	611	8,503	-	9,114
Outdoor Classroom	-	2,147	546	1,601
Elementary Activities	1,972	1,392	1,234	2,130
Elementary Band	129	1,588	427	1,290
Elementary Chorus	515	1,492	318	1,689
5th Grade Activities	833	4,716	3,537	2,012
Boxtops for Education	4,447	2,818	-	7,265
Parent University	215	-	(1)	216
Special Ed Track Fund	340	122	230	232
Market Madness	-	369	66	303
JH Student Council	440	534	200	774
JH Vocal	272	1,635	114	1,793
JH Band	445	1,858	181	2,122
JH Cheerleaders	(134)	8	-	(126)
JH Annual	(1,364)	1,025	1,695	(2,034)
JH Homepage Project	649	-	-	649
Student Council	1,415	1,810	2,115	1,110
Pop Machine	4,490	4,684	7,212	1,962
Pencil Machine	137	53	-	190
Drama	2,788	5,554	4,542	3,800
Vocal Activity	274	19,363	18,012	1,625
Band Activity	616	4,305	3,831	1,090
Athletics	(4,576)	46,256	57,105	(15,425)
Cheerleaders	1,841	4,629	3,990	2,480
Spanish Club	83	-	-	83
Shop	910	-	-	910
Industrial Arts Project	638	-	-	638
Yearbook	7,102	11,145	11,560	6,687
FFA	558	9,770	10,813	(485)
NHS	(252)	1,357	796	309
Peer Helper	96	154	126	124
After Prom Party CD	3,500	61	61	3,500
After Prom Party	3,471	12,151	13,556	2,066
At Risk Activities	6,148	-	-	6,148

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Class of 2002	174	-	-	174
Class of 2003	265	-	45	220
Class of 2004	(9)	-	94	(103)
Class of 2005	(35)	-	116	(151)
Class of 2006	-	-	36	(36)
Class of 2007	-	-	20	(20)
Band & Vocal Trip	556	50,413	50,313	656
Jr Class Prom Account	161	3,798	3,900	59
Student Center Displays	409	-	-	409
B-K Booster Klub	4,553	44,419	43,409	5,563
State Tournament	1,194	2,278	6,824	(3,352)
Uniform Account	(2,819)	13,213	11,132	(738)
Uniform Account CD	26,000	26,529	29,529	23,000
Magazine Fund Raiser	9,534	13,252	22,763	23
BD Incentive Program	2,774	-	-	2,774
Accrual entries	(4,274)	-	(4,325)	51
	<u>87,116</u>	<u>307,238</u>	<u>314,657</u>	<u>79,697</u>
Totals	<u>87,116</u>	<u>307,238</u>	<u>314,657</u>	<u>79,697</u>

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Courson Memorial	2,174	28	-	2,202
Luin Cox Memorial	5,160	965	1,000	5,125
George Heginger Fund	41,058	1,858	2,000	40,916
Dr. Samuel Leinbach Fund	10,288	358	450	10,196
Archie Stockseth Fund	73,700	3,653	3,700	73,653
Belmond-Klemme Scholarship Foundation	394,778	570,182	34,400	930,560
Dana & Avis Howell Fund	51,972	4,777	2,200	54,549
King Solomon Scholarship	10,724	321	500	10,545
Mark J. Schmidt Scholarship	6,156	238	-	6,394
Totals	596,010	582,380	44,250	1,134,140

See accompanying independent auditor's report.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	2,552,471	2,455,822	2,291,858	2,294,869
Special revenue	291,508	278,756	276,253	280,588
Capital projects	62,135	-	-	-
	<u>2,906,114</u>	<u>2,734,578</u>	<u>2,568,111</u>	<u>2,575,457</u>
State sources:				
General	2,948,727	3,053,691	3,408,513	3,420,721
Special revenue	391	635	517	614
School nutrition	3,448	3,817	4,121	4,806
	<u>2,952,566</u>	<u>3,058,143</u>	<u>3,413,151</u>	<u>3,426,141</u>
Federal sources:				
General	176,927	114,531	119,940	84,996
Special revenue	50,000	-	-	-
School nutrition	86,287	88,894	83,421	88,629
	<u>313,214</u>	<u>203,425</u>	<u>203,361</u>	<u>173,625</u>
Total	<u>6,171,894</u>	<u>5,996,146</u>	<u>6,184,623</u>	<u>6,175,223</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Belmond-Klemme Community School District:

We have audited the financial statements of the Belmond-Klemme Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Belmond-Klemme Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except 04-II-E.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Belmond-Klemme Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Belmond-Klemme Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Belmond-Klemme Community School District and other parties to whom Belmond-Klemme Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Belmond-Klemme Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

December 3, 2004

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control systems.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

04-I-B Capital Projects Fund - We noted that the District did not have a separate fund to account for local option sales tax revenues.

Recommendation - The District needs to set up a capital projects fund on its accounting system to account for revenues and expenditures relating to the local option sales tax revenues.

Response - We will set up this fund.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

04-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Sander Husband of District Secretary	Officiating	\$725

The transactions with Mr. Sander do not appear to represent a conflict of interest since the transactions did not exceed the \$2,500 of purchases allowed by the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-I Certified Annual Report - We noted that the District's Certified Annual Report was not filed with the Department of Education by the September 15, 2004 due date.

Recommendation - We recommend that the CAR be filed by the September 15 deadline in future years.

Response - We will comply with the deadline.

Conclusion - Response accepted.

04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

